



FINANCIAL STATEMENTS

**FOR THE THREE MONTHS ENDED
MARCH 31, 2004**

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COMPLIANCE ENERGY CORPORATION
 CONSOLIDATED BALANCE SHEETS

	March 31, 2004	December 31, 2003
ASSETS		
Current Assets		
Cash	\$ 2,862,421	\$ 1,056,081
Amounts receivable	61,400	126,529
Prepaid expenses	24,019	25,519
	<u>2,947,840</u>	<u>1,208,129</u>
Reclamation bonding	65,000	65,000
Resource property (note 4)	1,705,064	1,474,111
Capital assets (note 3)	986,770	883,329
	<u>\$ 5,704,674</u>	<u>\$ 3,630,569</u>
LIABILITIES		
Current Liabilities		
Accounts payable	\$ 246,119	\$ 132,255
Due to related parties	-	85,000
	<u>246,119</u>	<u>217,255</u>
Non-current Liability		
Deferred Gain on Joint Venture Formation	772,471	772,471
	<u>1,018,590</u>	<u>989,726</u>
SHAREHOLDERS' EQUITY		
Share Capital (note 5)	5,029,746	2,943,531
Contributed surplus	80,500	80,500
Deficit	(424,162)	(383,188)
	<u>4,686,084</u>	<u>2,640,843</u>
	<u>\$ 5,704,674</u>	<u>\$ 3,630,569</u>

Interim Financial Statements (Note 1)

Approved by:

"James C. O'Rourke" Director
 James C. O'Rourke

"Rodney A. Shier" Director
 Rodney A. Shier

The accompanying notes are an integral part of this financial statement

COMPLIANCE ENERGY CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT
FOR THE THREE MONTHS ENDED MARCH 31, 2004 AND 2003

	March 31, 2004	March 31, 2003
REVENUES		
Interest Income	\$ 974	\$ -
	974	-
EXPENSES		
Professional fees	21,000	17,500
General & admin	5,911	6,769
Transfer agent & filing fees	5,489	5,404
Shareholder communications	9,548	8,064
Net loss before other item	41,948	37,737
NET LOSS FOR THE PERIOD	40,974	37,737
DEFICIT, BEGINNING OF PERIOD	383,188	64,849
DEFICIT, END OF PERIOD	\$ 424,162	\$ 102,586
LOSS PER SHARE	\$ (0.00)	\$ (0.00)

The accompanying notes are an integral part of this financial statement

COMPLIANCE ENERGY CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE THREE MONTHS ENDED MARCH 31, 2004 AND 2003

	March 31, 2004	March 31, 2003
OPERATING ACTIVITIES		
Net loss for the period	\$ (40,974)	\$ (37,737)
Items not involving cash:		
Net change in non-cash working capital items	95,493	(76,708)
	54,519	(114,445)
INVESTING ACTIVITIES		
Purchase of capital assets	(103,441)	(41,680)
Resource property costs	(230,953)	(94,289)
	(334,394)	(135,969)
FINANCING ACTIVITIES		
Demand loan (repaid)	-	-
Shares issued for cash	2,086,215	-
	2,086,215	-
INCREASE IN CASH	1,806,340	(250,414)
CASH, BEGINNING OF PERIOD	1,056,081	441,317
CASH, END OF PERIOD	2,862,421	\$ 190,903

The accompanying notes are an integral part of this financial statement

COMPLIANCE ENERGY CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2004

1. BASIS OF PRESENTATION

These interim period consolidated financial statements have been prepared by the Company in accordance with Canadian generally accepted accounting principles ("GAAP") with respect to the preparation of interim financial information. Accordingly, they do not include all of the information and disclosures required by Canadian GAAP in the preparation of our annual consolidated financial statements. Certain information and footnote disclosure normally included in consolidated financial statements prepared in accordance with GAAP have been condensed or omitted. The accounting policies used in preparation of the accompanying unaudited interim consolidated financial statements are the same as those described in our annual consolidated financial statements and the notes thereto for the two years ended December 31, 2003.

These interim period statements have not been reviewed by the Company's auditors and should be read together with the audited consolidated financial statements and the accompanying notes included in the Company's latest annual report.

2. CONTINUANCE OF OPERATIONS

These interim consolidated financial statements have been prepared on a going concern basis, which assumes the ongoing capacity of the Company to realize on its assets and discharge of liabilities in the normal course of business. The Company's status as a going concern is dependent on its ability to generate future profitable operations and to receive continued financial support from its lenders and shareholders. Management is of the opinion that sufficient working capital will be obtained from operations and external financing to meet the Company's liabilities and commitments as they become due. Should the going concern assumption not be appropriate, the carrying values and classifications of assets and liabilities would change and those changes could be material. It is not possible to predict the outcome of those matters at this time.

3. PROPERTY, PLANT AND EQUIPMENT

	March 31, 2004	March 31, 2003
Proportionate interest at cost in the property, plant and equipment of the CBCJV:		
Land	\$ 32,500	\$ 32,500
Building	148,061	148,061
Equipment	805,551	460,868
	<u>986,112</u>	<u>641,429</u>
Office equipment owned outside of the CBCJV	658	-
	<u>\$ 986,770</u>	<u>\$ 641,429</u>

COMPLIANCE ENERGY CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2004

4. RESOURCE PROPERTY

The Property consists of 9 coal licenses covering 2,172 hectares, and was acquired by the CBCJV pursuant to a Mining Agreement dated August 30, 2002. Under this agreement, the CBCJV acquired working rights to the Property and a Right of First Offer in respect to any future disposition of the mineral tenures and related royalty comprising the Property. In consideration, the CBCJV granted a royalty of 3% on gross coal revenue from the Property prior to December 31, 2004, and of \$1.50 per tonne on all coal production thereafter.

The details of the carrying amount of the Company's resource property costs are as follows:

	Cumulative to March 31, 2004	December 31, 2003
Proportionate share of deferred costs incurred by the CBCJV:		
Mining	\$ 556,220	\$ 535,221
Processing	259,462	250,401
Development	605,372	546,819
Marketing	79,749	69,011
Environmental	106,449	105,160
Legal	34,130	34,130
	<u>1,641,382</u>	<u>1,540,742</u>
Less: start-up Coal Revenue	(332,875)	(332,875)
	<u>1,308,507</u>	<u>1,207,867</u>
Deemed project value	*1,700,833	*1,700,833
Less: the Company's interest in the aggregate gain realized to December 31, 2002 on its vend-in to the CBCJV.	(1,434,589)	(1,434,589)
	<u>1,574,751</u>	<u>1,474,111</u>
Other deferred costs outside of the CBCJV	130,313	-
	<u>\$ 1,705,064</u>	<u>\$ 1,474,111</u>

* Aggregate value ascribed to the Coal Project at the outset of Compliance's vend-in to the CBCJV.

5. CAPITAL STOCK

- (a) Authorized
1,000,000,000 Common shares without par value
20,000,000 Preferred shares without par value

COMPLIANCE ENERGY CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2004

5. CAPITAL STOCK (Cont'd)

(b) Issued

	Common Shares	Amount
Issued at December 31, 2003	23,508,096	\$ 2,943,531
• Shares issued for cash (net of costs)	3,627,500	2,086,215
Issued at March 31, 2004	27,135,596	\$ 5,029,746

(c) Escrowed Shares

Pursuant to the terms of the business combination completed during the year, at March 31, 2004 there are 9,816,376 common shares held in escrow. These shares are subject to a six year hold period and their release from escrow is subject to the terms of an agreement between the shareholders, the Company, and the transfer agent, Computershare Investor Services Inc.

(d) Stock Options

As at March 31, 2004, the Company has reserved stock options to directors and officers enabling them to acquire up to 810,000 common shares of the Company as follows:

Options Outstanding	2003		2002	
	Number of shares	Weighted average exercise price Cdn. \$	Number of shares	Weighted average exercise price Cdn. \$
Beginning of year	135,000	0.30	135,000	0.30
Granted during year	675,000	0.30	-	-
End of year	<u>810,000</u>	0.30	<u>135,000</u>	0.30

The weighted-average remaining life of options outstanding at March 31, 2004 is 4.02 years.

(e) Warrants

As at March 31, 2004 2,100,000 warrants are outstanding entitling the holders to acquire shares of the Company at prices ranging between \$0.35 and \$0.45 per share exercisable at various dates ranging up until November 25, 2005.

COMPLIANCE ENERGY CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2004

6. RELATED PARTY TRANSACTIONS

All transactions with related parties have occurred in the normal course of the Company's operations and have been measured at their fair value as determined by management. The year end balances payable are non-interest bearing and have no fixed terms for repayment.

- The Company paid two of its officers legal, management and administration fees aggregating \$21,000 during the period ended March 31, 2004 (period ended March 31, 2003 - \$17,500).
- The Company incurred consulting fees for project development costs of \$15,000 for the period ended March 31, 2003 (period ended March 31, 2003-\$30,000) with a private company controlled by the family of a director and officer.

Refer also to note 4.